COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

Investigation by the Department of	**)**	**D.T.E. 03-88A**
Telecommunications and Energy into	**)**	**D.T.E. 03-88B**
The Costs that Should Be Included	**)**	**D.T.E. 03-88C**
In Default Rates for Boston Edison	**)**	
Company, Cambridge Electric	**)**	
Company and Commonwealth Electric	**)**	
Company	**)**	

Initial Comments of the Massachusetts Division of Energy Resources

On January 20, 2004, Boston Edison Company, Cambridge Electric Light Company and Commonwealth Electric Company filed their wholesale-related and direct retail-related default service costs. The Department of Telecommunications and Energy ("the Department") held a public hearing for its Investigation into these filings on March 11, 2004, and requested that any written comments be submitted to the Department by March 15, 2004. The Division of Energy Resources ("DOER") appreciates the opportunity to comment on these filings.

DOER is interested in the outcome of this and related Department Investigations because, as stated in DOER's Petition to Intervene filed March 1, 2004, DOER is the Massachusetts executive agency responsible for implementing the Commonwealth's energy policies. DOER is concerned that default service costs inappropriately or inconsistently calculated would negate the objectives of the Department's directive to create a more level playing field for electricity suppliers competing against the default service prices. DOER believes the interests of potential competitive suppliers are very

much at stake in this Investigation, and therefore urges the Department to allow them full party status in this, and its related Investigations.

At this time, DOER is not commenting on the stated costs or their derivation in the filings in this proceeding, but reserves the right to do so in the future. Our comments focus on the concern that the methodology for cost calculation and allocation should be more uniform across the distribution companies. MECO's filing, the subject of DTE 03-88E, appears to utilize the best model for this purpose. The comments that follow detail DOER's analysis.

D.T.E. Orders 03-88A, 03-88B and 03-88-C specify costs to be included in default service rates, and seek to determine the level of costs incurred by each company. In these orders, D.T.E. specified wholesale costs or costs associated with a distribution company's interaction with the wholesale market to procure default service supply, including the wholesale supply costs that are paid to default service suppliers, as well as administrative costs associated with the procurement of the wholesale supply.

D.T.E. also distinguished between (1) "direct" retail costs that companies incur strictly on the behalf of their default service customers, and (2) "indirect" retail costs associated with the services and activities that distribution companies provide. These services are provided not only to their default service customers, but also to their standard offer service and competitive supply service customers.

Direct retail costs or costs that a distribution company incurs on behalf of its default service customers are associated with: (1) unrecovered bad debt; (2) compliance with the Department's default service regulatory requirements, including required communications with its default service customers; and (3) compliance with the

Massachusetts Renewable Energy Portfolio Standard. The Department concluded that because distribution companies incur these costs solely because of their obligation to provide default service to their customers, direct retail costs should be included in the calculation of default service rates.

The companies' filings in all the D.T.E. 03-88 dockets indicate costs associated with bad debt represent the majority of the total direct retail costs. In the MECO filing (D.T.E. 03-88E), 97.7% of the costs ($4,342,386 / $4,446,584 = 97.7%) are attributed to bad debt and in Boston Edison's case 95.5% ($2,464,603/$2,605,082 = 95.5%). Clearly bad debt costs are the central element in the proceeding. However, the methodology employed by companies to arrive at their estimate of bad debt differs and these differences can substantially alter the costs to be attributed to bad debt.

For example, the MECO filing at pg.13 states, "First, the company allocated the 2003 total net charge-offs to rate classes. The reason for this allocation is that charge off levels differ among rate classes, and the percentage of a customer's total bill that is attributable to what he/she is billed for Default Service is also dependent upon which rate class the customer receives delivery service. Therefore, to reach the desired end result of analysis, which is a fair representation of the level of Default Service charge-offs, it is necessary to perform the analysis by rate class. Based upon the gross charge off and recovery reports noted above, the Company derived allocators by rate class. These allocators were then applied to the 2003 total net charge-offs to arrive at allocated 2003 total net charge–offs by rate class."

However, NSTAR's filing at page 6 states that the Companies "determined the total 2003 annual new write-offs and allocated that amount to default service generation

by proportion of (1) revenues received for the generation portion of default service to (2) total retail revenues for the distribution company."

DOER believes the method employed by MECO in allocation of bad debt to rate classes is a more accurate allocation of this expense and, therefore, more consistent with the Department precedent for cost allocation among rate classes. DOER recommends that the Department instruct all distribution companies to employ the MECO methodology when calculating the company's bad debt.

Respectfully submitted,

Commonwealth of Massachusetts
Division of Energy Resources

By its attorney:

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DATE: March 15, 2004

CERTIFICATE OF SERVICE

I, Diane A. Langley, hereby certify that I served the foregoing Initial Comments of the Massachusetts Division of Energy Resources to all parties of record in this proceeding in accordance with the requirements of 220 CMR 1.05(1) (Department's Rule of Practice and Procedure), this 15th day of March 2004.

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Diane A. Langley